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**RBI Working Paper No. 04/2022: States' Fiscal Performance and Yield Spreads
on Market Borrowings in India**

Today the Reserve Bank of India placed on its website a Working Paper titled "[States' Fiscal Performance and Yield Spreads on Market Borrowings in India](#)" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Ramesh Jangili, N.R.V.V.M.K. Rajendra Kumar and Jai Chander.

This paper constructs a composite index of States' fiscal performance and examines if the constructed index can help in explaining the State Development Loan (SDL) yield spreads. Key fiscal parameters viz., deficit, debt, expenditure quality, revenue mobilisation efforts, and market liquidity of SDLs are considered for the composite index. The inclusion of both fiscal as well as market indicators makes the study unique and broadens the analysis. Empirical results establish a statistically significant association of the index with SDL yield spreads suggesting that better fiscal management and improved market liquidity can help states to reduce their cost of borrowing. Further analysis of individual sub-indices revealed that deficit, expenditure quality and market liquidity are the important factors in determining yield spreads. Thus, the index provides a menu of choice to state governments to reorient their policies towards improving their performance in order to reduce the cost of borrowing. The index provides investors with a single measure to make a more informed investment decision, thereby expecting to make the price discovery mechanism of SDLs more efficient.

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(Yogesh Dayal)
Chief General Manager

* The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.